

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2005

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LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2004 Election)		
David Brennecke	President	2006
Loris Nickell	Board Member	2004
Kent Vogel	Board Member	2004
Virginia Clow *	Board Member	2005
Sam Walkup	Board Member	2005
Board of Education		
(After September 2004 Election)		
David Brennecke	President	2006
Loris Nickell	Board Member	2007
Kent Vogel	Board Member	2007
Virginia Clow	Board Member	2005
Sam Walkup	Board Member	2005
School Officials		
Robert McCurdy	Superintendent	2005
Teresa Comer-Joki	District Secretary/Treasurer and Business Manager	2005
Monty Franklin	Attorney	2005

*Appointed to fill the vacancy created by resignation of Cheryln Hullinger in June 2004.

STEPHANIE MENDENHALL, CPA
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P.O. Box 220
Humeston, Iowa 50123
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Independent Auditor's Report

To the Board of Education of
Lineville-Clio Community School District:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District, Lineville, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated October 21, 2005 on my consideration of Lineville-Clio Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 11 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lineville-Clio Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 21, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lineville-Clio Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. I encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 Financial Highlights

- General Fund revenues increased from \$967,337 in fiscal 2004 to \$1,504,652 in fiscal 2005, while General Fund expenditures increased from \$1,036,209 in fiscal 2004 to \$1,371,804 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$34,378 in fiscal 2004 to \$167,186 in fiscal 2005.
- The increase in General Fund revenues was attributable to an increase in property taxes, state foundation aid, and a Safe Schools Healthy Students Grant. The increase in expenditures was due primarily to the Safe Schools Healthy Students program.
- Overall, the District's net assets increased in the governmental activities by \$195,346, and decreased in the business type activities by \$3,347, respectively.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

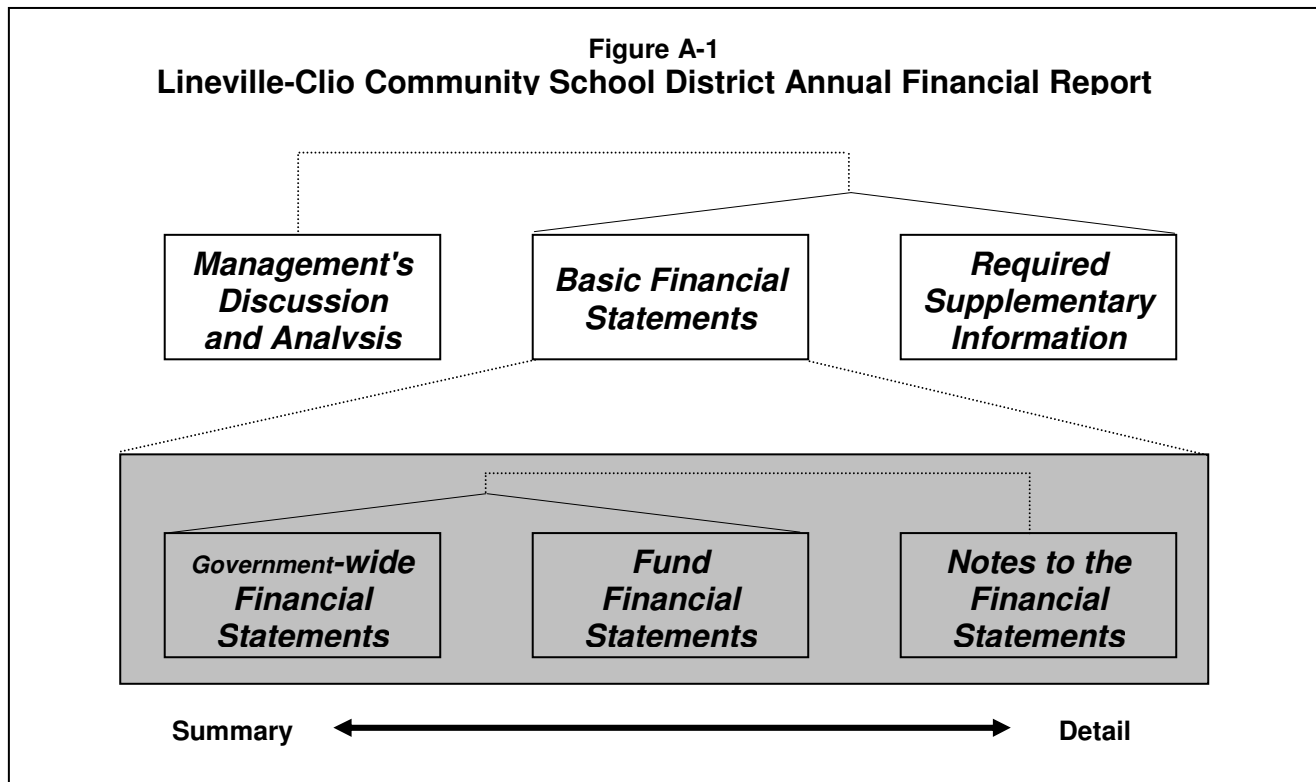


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The Government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base, enrollment and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005.

Figure A-3							
Condensed Statement of Net Assets							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Current and other assets	\$ 1,281	1,131	\$ -	1	\$ 1,281	1,132	13.2%
Capital assets	996	1,017	1	1	997	1,018	-2.1%
Total assets	2,277	2,148	1	2	2,278	2,150	6.0%
Long-term liabilities	910	945	-	-	910	945	-3.7%
Other liabilities	1,007	1,047	6	3	1,013	1,050	-3.5%
Total liabilities	1,917	1,992	6	3	1,923	1,995	-3.6%
Net assets:							
Invested in capital assets, net of related debt	83	72	1	1	84	73	15.1%
Restricted	125	43	-	-	125	43	190.7%
Unrestricted	143	41	(6)	(2)	137	39	251.3%
Total net assets	\$ 351	156	\$ (5)	(1)	\$ 346	155	123.2%

The District's combined net assets increased approximately \$195,000, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$82,000 over the prior year. The increase was primarily a result of increased revenue in property taxes and Local Option Sales Tax and decreased expenditures in Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$102,000.

Changes in net assets – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

Figure A-4			
Changes in Net Assets			
	Governmental Activities	Business type Activities	Total District
Revenues:			
Program revenues:			
Charges for service	\$ 140	24	164
Operating grants, contributions and restricted interest	512	21	533
Capital grants, contributions and restricted interest	-	-	-
General revenues:			
Property tax	415	-	415
Income surtax	22	-	22
Local option sales and service tax	51	-	51
Unrestricted intermediate grants	26	-	26
Unrestricted state grants	545	-	545
Unrestricted investment earnings	4	-	4
Other	-	-	-
Total revenues	<u>1,715</u>	<u>45</u>	<u>1,760</u>
Program expenses:			
Governmental activities:			
Instruction	707	-	707
Support services	735	-	735
Non-instructional programs	2	48	50
Other expenses	76	-	76
Total expenses	<u>1,520</u>	<u>48</u>	<u>1,568</u>
Change in net assets	<u>\$ 195</u>	<u>(3)</u>	<u>192</u>

Property tax and unrestricted state grants account for 56% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 95% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$1,715,501 and expenses were \$1,520,155. The District was able to balance the budget because of increased property taxes and state foundation aid.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
	Total Cost of Services	Net Cost of Services
Instruction	\$ 707	523
Support services	735	302
Non-instructional programs	2	2
Other expenses	<u>76</u>	<u>41</u>
Totals	<u>\$ 1,520</u>	<u>868</u>

- The cost financed by users of the District's programs was \$139,602.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$512,230.
- The net cost of governmental activities was financed with \$488,083 in property and other taxes and \$545,006 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activities were \$44,233 and expenses were \$47,609. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The nutrition program operated at a deficit due primarily to the number of students participating.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted, the Lineville-Clio Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$351,492, above last year's ending fund balances of \$156,146. The primary reason for the increase in combined fund balances in fiscal 2005 was due to increased property taxes, state foundation aid and Local Option Sales Tax.

Governmental Fund Highlights

- The General Fund balance increased from \$34,378 to \$167,186. Increased property taxes and state foundation aid during the year resulted in an increase in revenues.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$6,301 in fiscal 2004 to \$18,106 in fiscal 2005.
- The Capital Projects Fund balance increased from \$9,099 in fiscal 2004 to \$41,423 in fiscal 2005 due to a full year of collecting the SILO tax.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from a deficit of \$1,444 in fiscal 2004 to a deficit of \$4,791 in fiscal 2005. The District was unable to stop deficit spending because of the few numbers of students participating in the program.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 33-35.

Legal Budgetary Highlights

The District's total actual receipts were \$217,949 more than the total budgeted receipts, a variance of 14%. The most significant change resulted from the District receiving additional federal and state grant revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested one million, net of accumulated depreciation, in a broad range of capital assets, including buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year exceeded \$37,112.

The original cost of the District's capital assets was \$1.07 million. Governmental funds account for \$1.068 million with the remainder of \$.002 million in the Proprietary, School Nutrition Fund.

Figure A-6							
Capital Assets, net of Depreciation							
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
Buildings	922	941	-	-	922	941	-2.0%
Furniture and equipment	74	76	1	1	75	77	-2.6%
Totals	\$ 996	1,017	\$ 1	1	\$ 997	1,018	-2.1%

Long-Term Debt

At June 30, 2005, the District had \$910,000, in general obligation bonds. This represents a decrease of approximately 3.7% from last year.

Figure A-7				
Outstanding Long-Term Obligations				
	Total District		Total Change	
	June 30,		June 30,	
	2005	2004	2004-2005	
General obligation bonds	\$ 910,000	945,000	-3.7%	

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's enrollment certified to the Department of Education in September 2004 was overstated by 6 students. Future state foundation aid payments will be reduced.
- The District has experienced declining enrollment for the past several years and expects that trend to continue.
- As a result of declining enrollment property taxes will be raised to fund a greater share of the regular program cost.
- The District has benefited from a Safe Schools Health Students grant. This grant will generate additional revenue for the next three fiscal years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Teresa Comer-Joki, District Secretary/Treasurer and Business Manager, Lineville-Clio Community School District, Lineville, Iowa, 50147.

Basic Financial Statements

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	\$ 443,443	\$ -	\$ 443,443
Other	230,177	-	230,177
Receivables:			
Property tax:			
Delinquent	7,121	-	7,121
Succeeding year	415,529	-	415,529
Income surtax-succeeding year	18,497	-	18,497
Accounts	15,379	-	15,379
Accrued interest:			
ISCAP	1,156	-	1,156
Other	-	-	-
Due from other governments	-	-	-
Inventories	-	794	794
Capital assets, net of accumulated depreciation	1,016,516	795	1,017,311
Total assets	2,147,818	1,589	2,149,407
Liabilities			
Excess of warrants issued over bank balance	-	679	679
Accounts payable	62,708	-	62,708
Salaries and benefits payable	98,608	2,354	100,962
Other	1,282	-	1,282
Due to other governments	-	-	-
Accrued interest payable	3,296	-	3,296
Deferred revenue			
Succeeding year property tax	415,529	-	415,529
Income surtax-succeeding year	18,497	-	18,497
ISCAP warrants payable	445,000	-	445,000
ISCAP accrued interest payable	1,752	-	1,752
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	35,000	-	35,000
Portion due after one year:			
General obligation bonds payable	910,000	-	910,000
Total liabilities	1,991,672	3,033	1,994,705

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	\$ 71,516	\$ 795	\$ 72,311
Restricted for:			
Management levy	19,211	-	19,211
Physical plant and equipment	6,301	-	6,301
Other special revenue purposes	17,423	-	17,423
Unrestricted	<u>41,695</u>	<u>(2,239)</u>	<u>39,456</u>
Total net assets	<u>156,146</u>	<u>(1,444)</u>	<u>154,702</u>

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

Functions/Programs	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction				
Regular instruction	\$ 537,545	\$ 18,228	\$ 106,281	\$ -
Special instruction	141,501	19,784	31,927	-
Other instruction	141,867	-	42,409	-
	<u>820,913</u>	<u>38,012</u>	<u>180,617</u>	<u>-</u>
Support services:				
Student services	13,936	-	-	-
Instructional staff services	2,784	-	-	-
Administration services	144,675	-	1,800	-
Operation and maintenance of plant services	96,930	20	-	-
Transportation services	27,836	-	-	-
Other support services	127	-	-	-
	<u>286,288</u>	<u>20</u>	<u>1,800</u>	<u>-</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	-	-	-	-
Equipment acquisition	-	-	5,000	-
Long-term debt interest	43,894	-	114	-
AEA flowthrough	28,043	-	28,043	-
	<u>71,937</u>	<u>-</u>	<u>33,157</u>	<u>-</u>
Total governmental activities	<u>1,179,138</u>	<u>38,032</u>	<u>215,574</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>52,568</u>	<u>25,420</u>	<u>24,675</u>	<u>-</u>
Total	<u>1,231,706</u>	<u>63,452</u>	<u>240,249</u>	<u>-</u>

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (413,036)	\$ -	\$ (413,036)
(89,790)	-	(89,790)
(99,458)	-	(99,458)
(602,284)	-	(602,284)
(13,936)	-	(13,936)
(2,784)	-	(2,784)
(142,875)	-	(142,875)
(96,910)	-	(96,910)
(27,836)	-	(27,836)
(127)	-	(127)
(284,468)	-	(284,468)
-	-	-
7,113	-	7,113
5,000	-	5,000
(43,780)	-	(43,780)
-	-	-
(31,667)	-	(31,667)
(918,419)	-	(918,419)
-	(2,473)	(2,473)
(918,419)	(2,473)	(920,892)

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues		
	Charges for	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Expenses	Service	
(continued)			
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Income surtax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Total general revenues			
Change in net assets			
Net assets beginning of year, as restated			
Net assets end of year			

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
\$ 324,170	-	324,170
77,119	-	77,119
-	-	-
18,674	-	18,674
8,003	-	8,003
460,514	-	460,514
1,036	10	1,046
-	-	-
<u>889,516</u>	<u>10</u>	<u>889,526</u>
(28,903)	(2,463)	(31,366)
<u>185,049</u>	<u>1,019</u>	<u>186,068</u>
<u>156,146</u>	<u>(1,444)</u>	<u>154,702</u>

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Balance Sheet

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments:					
ISCAP	\$ 443,443	-	-	-	\$ 443,443
Other	133,415	487	53,907	42,368	230,177
Receivables:					
Property tax:					
Delinquent	3,724	1,021	1,809	567	7,121
Succeeding year	318,668	59,548	-	37,313	415,529
Income surtax-succeeding year	18,497	-	-	-	18,497
Accounts	15,379	-	-	-	15,379
Accrued interest:					
ISCAP	1,156	-	-	-	1,156
Other	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total assets	<u>934,282</u>	<u>61,056</u>	<u>55,716</u>	<u>80,248</u>	<u>1,131,302</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	16,091	-	46,617	-	62,708
Salaries and benefits payable	98,608	-	-	-	98,608
Other	1,282	-	-	-	1,282
Due to other governments	-	-	-	-	-
Due to other funds	-	-	-	-	-
ISCAP warrants payable	445,000	-	-	-	445,000
ISCAP accrued interest payable	1,752	-	-	-	1,752
Deferred revenue:					
Succeeding year property tax	318,668	59,548	-	37,313	415,529
Income surtax-succeeding year	18,497	-	-	-	18,497
Total liabilities	<u>899,898</u>	<u>59,548</u>	<u>46,617</u>	<u>37,313</u>	<u>1,043,376</u>
Fund balances:					
Reserved for debt service	-	1,508	-	-	1,508
Unreserved	34,384	-	9,099	42,935	86,418
Total fund balances	<u>34,384</u>	<u>1,508</u>	<u>9,099</u>	<u>42,935</u>	<u>87,926</u>
Total liabilities and fund balances	<u>934,282</u>	<u>1,056</u>	<u>55,716</u>	<u>80,248</u>	<u>1,131,302</u>

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets

June 30, 2005

Total fund balances of governmental funds (page 18)*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

\$ 87,926

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

1,016,516

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.

(3,296)

Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.

(945,000)**Net assets of governmental activities (page 13)**156,146

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 300,000	\$ 77,119	\$ -	\$ 42,844	\$ 419,963
Tuition	38,012	-	-	-	38,012
Other	24,764	114	15,116	47,595	87,589
Intermediate sources	1,800	-	-	-	1,800
State sources	528,237	71	-	39	528,347
Federal sources	74,524	-	-	-	74,524
Total revenues	967,337	77,304	15,116	90,478	1,150,235
Expenditures:					
Current:					
Instruction:					
Regular instruction	516,673	-	-	16,268	532,941
Special instruction	141,501	-	-	-	141,501
Other instruction	104,685	-	-	37,182	141,867
	762,859	-	-	53,450	816,309
Support services:					
Student services	13,936	-	-	-	13,936
Instructional staff services	2,784	-	-	-	2,784
Administration services	130,923	-	11,413	2,039	144,375
Operation and maintenance of plant services	76,387	-	-	20,543	96,930
Transportation services	17,150	-	-	3,006	20,156
Other support services	127	-	-	-	127
	241,307	-	11,413	25,588	278,308
Non-instructional programs	-	-	-	-	-
Other expenditures:					
Facilities acquisition	-	-	927,624	13,021	940,645
Equipment acquisition	4,000	-	-	26,907	30,907
Long-term debt					
Principal	-	35,000	-	-	35,000
Interest and fiscal charges	-	40,898	-	-	40,898
AEA flowthrough	28,043	-	-	-	28,043
	32,043	75,898	927,624	39,928	1,075,493

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Balance Sheet

June 30, 2005

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
(continued)					
Total expenditures	\$1,036,209	75,898	939,037	118,966	2,170,110
Excess (deficiency) of revenues over (under) expenditures	(68,872)	1,406	(923,921)	(28,488)	(1,019,875)
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfer out	-	-	-	-	-
General obligation bonds issued	-	-	-	-	-
Revenue bonds issued	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balances	(68,872)	1,406	(923,921)	(28,488)	(1,019,875)
Fund balances beginning of year, as restated (note 12)	103,250	100	933,020	71,424	1,107,794
Fund balances end of year	34,378	1,506	9,099	42,936	87,919

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statements of Revenues, Expenditures and
Changes in Fund Balances – Governmental Funds
to the Statement of Activities

Year ended June 30, 2005

Net change in fund balances – total	
Governmental funds (page 21)	(\$1,019,875)

*Amounts reported for governmental
Activities in the Statement of
Activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	971,552	
Depreciation expense	<u>(12,284)</u>	959,268

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Repaid	35,000
--------	--------

Interest on long-term debt in the Statements of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	(3,296)
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Change in net assets of governmental activities (page17).	<u><u>(28,903)</u></u>
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See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2005

Assets

Cash and cash equivalents	\$ -
Accounts receivable	-
Inventories	794
Capital assets, net of accumulated depreciation	<u>795</u>
Total assets	<u>1,589</u>

Liabilities

Excess of warrants issued over bank balance	679
Salaries and benefits payable	<u>2,354</u>
Total liabilities	<u>3,033</u>

Net Assets

Invested in capital assets, net of related debt	795
Unrestricted	<u>(2,239)</u>
Total net assets	<u>(1,444)</u>

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 25,420</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	24,268
Benefits	6,165
Purchased services	171
Supplies	21,822
Depreciation	<u>142</u>
Total operating expenses	<u>52,568</u>
Operating loss	<u>(27,148)</u>
Non-operating revenues:	
State sources	647
Federal sources	24,028
Interest income	<u>10</u>
Total non-operating revenues	<u>24,685</u>
Change in net assets	(2,463)
Net assets beginning of year	<u>1,019</u>
Net assets end of year	<u>(1,444)</u>

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 25,420
Cash paid to employees for services	(30,436)
Cash paid to suppliers for goods or services	<u>(17,877)</u>
Net cash used by operating activities	<u>(22,893)</u>
Cash flows from non-capital financing activities:	
State grants received	647
Federal grants received	<u>20,067</u>
Net cash provided by non-capital financing activities	<u>20,714</u>
Cash flows from capital and related financing activities:	
Sale of capital assets	-
Acquisition of capital assets	<u>-</u>
Net cash used by capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>10</u>
Net decrease in cash and cash equivalents	(2,169)
Cash and cash equivalents beginning of year	<u>1,490</u>
Cash and cash equivalents end of year	<u>(679)</u>

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2005

School
Nutrition

(continued)

Reconciliation of operating loss to net cash used by

Operating activities:

Operating loss	\$ (27,148)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	3,961
Depreciation	142
Decrease in inventories	156
Decrease in accounts payable	
(Decrease) in salaries and benefits payable	<u>(4)</u>
Net cash used by operating activities	<u><u>(22,893)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$3,961 of federal commodities.

See notes to financial statements.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Lineville-Clio Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Lineville and Clio, Iowa, and the predominate agricultural territory in Wayne County and Decatur Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Lineville-Clio Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Lineville-Clio Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wayne County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the accrual basis.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	5,000
Improvement other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and income surtax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other instruction functional area exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investments trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust. The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust are rated Aaa by Moody's Investors Service.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/20/04	6/30/04	\$ -	\$ 40	\$ -	\$ -
2004-05B	1/28/05	1/27/07	215,621	2,921	215,000	2,893
2005-06A	6/30/05	6/30/05	180,797	38	180,000	30
Total			396,418	2,999	395,000	2,923

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ -	\$ 21,000	\$ 21,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.0%	2.463%
2004-05B	3.5%	2.280%
2005-06A	3.5%	3.903%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Buildings	\$ 940,645	-	-	940,645
Improvements other than buildings	-	-	-	-
Furniture and equipment	\$ 110,480	16,620	-	127,100
Total capital assets not being depreciated	1,051,125	16,620	-	1,067,745
Less accumulated depreciation for:				
Buildings	-	18,813	-	18,813
Improvements other than buildings	-	-	-	-
Furniture and equipment	34,609	18,299	-	52,908
Total accumulated depreciation	34,609	37,112	-	71,721
Governmental activities capital assets, net	1,016,516	(20,492)	-	996,024
Business type activities:				
Furniture and equipment	\$ 3,152	-	(750)	2,402
Less accumulated depreciation	2,357	142	(750)	1,749
Business type activities capital assets, net	\$ 795	(142)	-	653

Depreciation expense was charged to the following functions:

Instruction	
Regular	10,619
Support services:	
Operation and maintenance	18,813
Transportation	7,680
Total depreciation expense - governmental activities	\$ 37,112
Business type activities:	
Food service operations	\$ 142

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 945,000	-	35,000	910,000	35,000

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

General Obligation Bonds Payable

Bond Issue of June 1, 1996				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
2006	3.00%	\$ 35,000	38,498	73,498
2007	3.00%	40,000	37,447	77,447
2008	3.50%	40,000	36,248	76,248
2009	4.00%	40,000	34,847	74,847
2010	4.00%	40,000	33,248	73,248
2011-2015	4.0-4.2%	235,000	139,988	374,988
2016-2020	4.3-4.65%	280,000	86,917	366,917
2021-2023	4.7-4.8%	200,000	19,310	219,310
Total		\$ 910,000	426,503	1,336,503

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement Systems (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$70,136, \$55,709 and \$58,076 respectively, equal to the required contributions for each year.

(7) Risk Management

Lineville-Clio Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$29,549 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash financial statements.

Required Supplementary Information

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances- Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Local sources	\$ 554,516	\$ 25,430
Intermediate sources	1,800	-
State sources	527,250	647
Federal sources	68,120	20,067
Total receipts	<u>1,151,686</u>	<u>46,144</u>
Disbursements:		
Instruction	829,903	-
Support services	280,359	-
Non-instructional programs	-	48,313
Other expenditures	1,042,939	-
Total disbursements	<u>2,153,201</u>	<u>48,313</u>
Deficiency of receipts under disbursements	(1,001,515)	(2,169)
Other financing sources, net	<u>-</u>	<u>-</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(1,001,515)	(2,169)
Balance beginning of year	<u>1,231,692</u>	<u>1,490</u>
Balances end of year	<u><u>230,177</u></u>	<u><u>(679)</u></u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>	<u>Final to Actual Variance</u>
\$ 579,946	\$ 541,017	\$ 38,929
1,800	1,500	300
527,897	512,877	15,020
88,187	110,012	(21,825)
<u>1,197,830</u>	<u>1,165,406</u>	<u>32,424</u>
829,903	881,500	51,597
280,359	339,300	58,941
48,313	49,150	837
<u>1,042,939</u>	<u>892,876</u>	<u>(150,063)</u>
<u>2,201,514</u>	<u>2,162,826</u>	<u>(38,688)</u>
(1,003,684)	(997,420)	(6,264)
<u>-</u>	<u>-</u>	<u>-</u>
(1,003,684)	(997,420)	(6,264)
<u>1,233,182</u>	<u>997,483</u>	<u>235,699</u>
<u>229,498</u>	<u>63</u>	<u>229,435</u>

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	<u>Government Funds</u>		
	<u>Cash</u>	<u>Accrual</u>	<u>Modified</u>
	<u>Basis</u>	<u>Adjust-</u>	<u>Accrual</u>
		<u>ments</u>	<u>Basis</u>
Revenues	\$1,123,643	\$ (1,451)	\$1,122,192
Expenditures	<u>2,125,158</u>	<u>(16,810)</u>	<u>2,141,968</u>
Net	(1,001,515)	(18,261)	(1,019,776)
Beginning fund balances	<u>1,231,692</u>	<u>(123,990)</u>	<u>1,107,702</u>
Ending fund balances	<u>230,177</u>	<u>(142,251)</u>	<u>87,926</u>

	<u>Proprietary Fund</u>		
	<u>Enterprise</u>		
	<u>Cash</u>	<u>Accrual</u>	<u>Accrual</u>
	<u>Basis</u>	<u>Adjust-</u>	<u>Basis</u>
		<u>ments</u>	
Revenues	\$ 46,144	\$ 3,961	\$ 50,105
Expenses	<u>48,313</u>	<u>4,255</u>	<u>52,568</u>
Net	(2,169)	(294)	(2,463)
Beginning net assets	<u>1,490</u>	<u>(471)</u>	<u>1,019</u>
Ending net assets	<u>(679)</u>	<u>(765)</u>	<u>(1,444)</u>

See accompanying independent auditor's report.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements in the support services function exceeded the amount budgeted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2005

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Assets				
Cash and pooled investments	\$19,022	\$17,423	\$ 5,923	\$42,368
Receivables:				
Property tax:				
Delinquent	189	-	378	567
Succeeding year	10,000	-	27,313	37,313
Total assets	<u>29,211</u>	<u>17,423</u>	<u>33,614</u>	<u>80,248</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	-	-	-	-
Deferred revenue:				
Succeeding year property tax	10,000	-	27,313	37,313
Total liabilities	10,000	-	27,313	37,313
Fund equity:				
Unreserved fund balances	19,211	17,423	6,301	42,935
Total liabilities and fund equity	<u>29,211</u>	<u>17,423</u>	<u>33,614</u>	<u>80,248</u>

See accompanying independent auditor's report.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Manage- Ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 14,282	\$ -	\$ 28,562	\$ 42,844
Other	74	42,409	5,112	47,595
State sources	13	-	26	39
Total revenues	<u>14,369</u>	<u>42,409</u>	<u>33,700</u>	<u>90,478</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	16,268	-	-	16,268
Other instruction	-	37,182	-	37,182
Support services:				
Administration services	2,039	-	-	2,039
Operation and maintenance of plant services	-	-	20,543	20,543
Transportation services	3,006	-	-	3,006
Other expenditures:				
Facilities acquisition	-	7,216	32,712	39,928
Total expenditures	<u>21,313</u>	<u>44,398</u>	<u>53,255</u>	<u>118,966</u>
Excess (deficiency) of revenues over (under) expenditures	(6,944)	(1,989)	(19,555)	(28,488)
Fund balance beginning of year, as restated	<u>26,156</u>	<u>19,412</u>	<u>25,856</u>	<u>71,424</u>
Fund balances end of year	<u>19,212</u>	<u>17,423</u>	<u>6,301</u>	<u>42,936</u>

See accompanying independent auditor's report.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Annual	\$ 3,324	\$ 4,537	\$ 3,142	\$ 4,719
Athletics	1,324	9,041	6,566	3,799
Playground	1,606	-	-	1,606
Field Trip	270	-	-	270
Drama Club	59	194	108	145
Spanish	278	-	-	278
FCCLA	769	2,134	1,724	1,179
Cheerleading	74	-	-	74
SES	155	-	-	155
Strengthening Families	3	-	-	3
Get A Grip	39	3	-	42
National Honor Society	145	180	78	247
General	8,367	284	8,135	516
Miscellaneous	990	4,107	4,155	942
Shop	32	-	32	-
Horticulture	17	32	-	49
Student Council	29	292	289	32
Class of 2001	133	-	133	-
Class of 2002	226	-	226	-
Class of 2003	217	-	40	177
Class of 2004	238	13,074	12,670	642
Class of 2005	583	6,637	6,367	853
Class of 2006	383	831	212	1,002
Class of 2007	111	871	490	492
Class of 2008	40	59	31	68
Class of 2009	-	133	-	133
Total	<u>19,412</u>	<u>42,409</u>	<u>44,398</u>	<u>17,423</u>

See accompanying independent auditor's report.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 419,963	\$ 363,171	\$ 341,226	\$ 285,934
Tuition	38,012	40,703	36,493	48,665
Other	87,589	86,518	105,961	92,490
Intermediate sources	1,800	-	1,954	1,024
State sources	528,347	480,380	512,981	568,085
Federal sources	74,524	79,929	60,294	64,490
Total	<u>1,150,235</u>	<u>1,050,701</u>	<u>1,058,909</u>	<u>1,060,688</u>
Expenditures:				
Instruction:				
Regular instruction	532,941	543,880	523,559	451,971
Special instruction	141,501	67,827	78,303	109,296
Other instruction	141,867	192,309	155,750	162,167
Support services:				
Student services	13,936	13,574	14,432	13,972
Instructional staff services	2,784	10,236	10,536	10,197
Administration services	144,375	121,110	114,335	108,328
Operation and maintenance of plant services	96,930	141,155	81,374	82,949
Transportation services	20,156	25,160	44,551	36,433
Central support services	127	19,360	17,535	15,021
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	940,645	60,022	-	51,986
Equipment acquisition	30,907	-	-	-
Long-term debt:				
Principal	35,000	-	-	-
Interest and other charges	40,898	-	-	-
AEA flowthrough	28,043	29,089	29,401	31,588
Total	<u>2,170,110</u>	<u>1,223,722</u>	<u>1,069,776</u>	<u>1,073,908</u>

See accompanying independent auditor's report.

Stephanie Mendenhall, CPA
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P.O. Box 220
Humeston, Iowa 50123
641/877-6021

Independent Auditor's Report on Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Lineville-Clio Community School District:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lineville-Clio Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated October 21, 2005. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Lineville-Clio Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-5 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lineville-Clio Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Lineville-Clio Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response accepted.

- II-B-05 Student Activity Invoices – There were not supporting invoices for expenditures in the Student Activity Account.

Recommendation – All expenditures should have proper supporting documentation.

Response – We will insure that there is proper documentation to support all expenditures.

Conclusion – Response accepted.

- II-C-05 Student Activity Fund – Annual ad sales receipts and annual book sales receipts were deposited into the Student Activity account. Payments to Jostens for printing were paid from the Student Activity account. The "Publications" class is responsible for the Annual and the students are receiving academic credit.

Recommendation – The Student Activity Fund should not be used as a clearing account for the general fund or any other fund. It should not be used for curricular activities of the "Publications" class. In the future all financial activity of the Annual should be recorded in the General Fund.

Response – We will take this under advisement.

Conclusion – Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable since less than \$500,000 in federal awards.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-05 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005 exceeded the amended certified budget amounts in the support services functions. Also the budget was not amended until June 2005. Chapter 24.9 of the Code of Iowa requires amended budgets to be adopted by May 31.

Recommendation – The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will properly amend the budget in the future.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions – No business transactions were noted between the District and District officials or employees.

IV-F-05 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes – I noted no transactions requiring Board approval which had not been approved by the Board.

IV-H-05 Certified Enrollment – The basis enrollment count certified to the Department of Education in September 2004 is incorrect. Six pre-school students were incorrectly included in the count.

Recommendation – The District should contact the Department of Management and Department of Education to notify them of the variance.

Response – We will notify the appropriate officials.

Conclusion – Response accepted.

IV-I-05 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

- IV-J-05 Certified Annual Report- The Certified Annual Report was not timely filed with the Department of Education and contained significant errors in the amounts reported.
- Recommendation – The Certified Annual Report should be refiled with the Department of Education.
- Response – A corrected Certified Annual Report will be filed with the Department of Education.
- Conclusion – Response accepted.
- IV-K-05 School Nutrition Fund – The School Nutrition Fund has a deficit of \$4,791.
- Recommendation – The School Nutrition Fund is a proprietary fund and should be generating enough revenue to cover expenditures. District officials need to investigate changes to the present program to make the School Nutrition Fund solvent.
- Response – We are aware of the problem. It will be difficult to erase the deficit because of few number of students.
- Conclusion – Response accepted.
- IV-L-05 Published Salaries – The incorrect amount of fiscal year salaries was published. The published salaries failed to include the June 30, 2005 payroll.
- Recommendation – Corrected fiscal year salaries should be published.
- Response – We will publish the correct salaries.
- Conclusion – Response accepted.
- IV-M-05 Employee Files – The District did not maintain complete employee files for the employees working under the State School Healthy School grant. Specifically there were no signed contracts for these employees.
- Recommendation – These individuals are employees of the District. Proper and complete documentation should be maintained in all employee files.
- Response – We will get the necessary documentation for our files.
- Conclusion – Response accepted.
- IV-N-05 Student Activity Receipts – A grant of \$1,100 was received to be used to introduce nutritional eating ideas into the curriculum.
- Recommendation – The money was not co-curricular in nature and should have been deposited into the General Fund to be used for the operation of the district.
- Response – In the future this type of receipt will be deposited into the General Fund.
- Conclusion – Response accepted.

IV-O-05 Declining Enrollment – The numbers of students attending classes in the district has been declining.

Sept. 1999	111
Sept. 2000	99
Sept. 2001	88
Sept. 2002	88
Sept. 2003	87
Sept. 2004	78

The number of graduating students continues to exceed the number of students entering kindergarten. For the 2005-2006 school year there are no students in fourth grade. It appears that District officials and board members have not addressed this issue.

Recommendation – District officials and board members need to be proactive in their response to this issue.

Response – We are aware of the situation and are working on this issue.

Conclusion – Response accepted.